

Message Text

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C O N F I D E N T I A L MADRID 0560

FOR USDEL HARTMAN

E.O.11652: GDS

TAGS: ECON, EFIN, SP

SUBJECT: DISCUSSION WITH FIANCA MINISTER VILLARMIR AT FOREIGN
MINISTER'S DINNER

1. THE FOLLOWING IS A BRIEFING MEMORANDUM ON THE SPANISH
ECONOMIC AND EXTERNAL DEBT SITUATION THAT WE HAVE DONE FOR
BACKGROUND FOR THE PROSPECTIVE CONVERSATION BETWEEN THE
SECRETARY AND FINANCE VILLARMIR. SUGGESTED TALKING POINTS ARE
PROVIDED AT END.

2. ISSUE

FINANCE MINISTER JUAN MIGUEL VILLAR MIR WOULD LIKE TO TALK
BRIEFLY WITH SECRETARY KISSINGER ABOUT SPAIN'S FINANCIAL AND
ECONOMIC SITUATION WITH A VIWEW TO A POSSIBLE VISIT TO APPROPRATE
USG OFFICIALS. VILLAR MIR IS NOT EXPECTED TO REQUEST SPECIFIC
HELP, BUT RATHER THE USG GENERAL UNDERSTANDING DURING SPAIN'S
TRANSITIONAL STAGE. VILLAR MIR IS APPARENTLY CONSIDER
ING A MULTILATERAL EFFORT TO RESCHEDULE SPAINJS EXTERNAL
DEBT.

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3. BACKGROUND

FROM 1960 TO MID 1974 SPAIN HAD ONE OF THE HIGHEST RATES OF ECONOMIC GROWTH OF ALL OECD COUNTRIES (AN AVERAGE OF SEVEN PERCENT PER YEAR IN REAL TERMS). AS A RESULT OF THE WORLD ECONOMIC CRISIS, SPAIN'S REAL GROWTH IN GNP DECLINED TO FIVE PER CENT FOR 1974 WITH INFLATION AT 18 PERCENT AND FOR THE FIRST TIME IN SEVERAL YEARS SPAIN HAD AN ACCOUNT BALANCE OF PAYMENTS DEFICIT OF 3 BILLION. THE ECONOMIC RECESSION DEEPENED IN SPAIN DURING 1975, WITH A REAL GROWTH IN GNP OF ONLY ONE PERCENT AND UNEMPLOYMENT RISING TO ABOUT FIVE PERCENT. INFLATION FOR 1975 DROPPED SLIGHTLY TO ABOUT 14 PERCENT, AND THE CURRENT ACCOUNT BALANCE OF PAYMENTS DEFICIT DECLINED SOMEWHAT TO 2.8 BILLION. SPAIN IS CONCERNED ABOUT ITS LARGE TRADE DEFICIT WITH THE USG (NEARLY \$2 BILLION FOR 1975). HOWEVER, AS A RESULT OF US CAPITAL FLOWS AND AMERICAN TOURIST EXPENDITURES, SPAIN HAS A SLIGHT BALANCE OF PAYMENTS SURPLUS WITH THE US.

4. THE ABRUPT TURNABOUT IN SPAIN'S BALANCE OF PAYMENTS SITUATION HAS LED THE GOVERNMENT TO BORROW ABROAD IN AMOUNTS WELL IN EXCESS OF WHAT IT HAD EVER DONE PREVIOUSLY. HOWEVER, THE LEVEL OF FOREIGN PUBLIC AND PUBLIC GUARANTEED DEBT OUTSTANDING REMAINS LOW IN RELATION TO THE SIZE OF THE SPANISH ECONOMY, ITS CAPACITY TO EARN FOREIGN EXCHANGE, AND ITS OFFICIAL RESERVES (\$6 BILLION.) IN 1974 NEW LOANS AMOUNTED TO JUST OVER \$1 BILLION, AND THE TOTAL OUTSTANDING PUBLIC DEBT ROSE TO \$2.6 BILLION. THROUGH SEPTEMBER 1975, OFFICIAL FOREIGN BORROWING INCREASED A FURTHER \$1.2 BILLION AND BY THE END OF THE YEAR MAY HAVE REACHED \$1.6 BILLION, SO THAT PUBLIC AND PUBLIC GUARANTEED FOREIGN DEBT OUTSTANDING SHOULD NOW BE ABOUT 4 BILLION. THE BULK OF THIS DEBT IS TO CONSORTIA OF PRIVATE BANKS INCLUDING AMERICAN BANKS.

5. PURELY PRIVATE DEBT BY SPANISH BANKS AND OTHER COMPANIES WOULD, HOWEVER, ADD PERHAPS ANOTHER \$3 BILLION TO SPAIN'S OVERALL EXTERNAL INDEBTEDNESS.

6. AS OF THE END OF 1974, 64.5 PERCENT OF PUBLIC SPANISH DEBT, WAS DENOMINATED IN DOLLARS, 26.8 PERCENT IN GERMAN

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MARKS. 2.3 PERCENT IN FRENCH FRANCS, AND THE REMAINDER IN NINE OTHER CURRENCIES, INCLUDING THE EQUIVALENT OF 25 MILLION, OR ONE PERCENT IN UNITED ARAB EMIRATE DIRHAMS.

7. THE SERVICING BURDEN ON SPAIN'S PUBLIC EXTERNAL DEBT IS NOT GREAT. DURING 1974, INTEREST PLUS AMORTIZATION OF THE PUBLIC EXTERNAL DEBT AMOUNTED TO ONLY 2.7 PERCENT OF SPAIN'S GROSS EARNINGS OF FOREIGN EXCHANGE FROM GOODS AND SERVICES.

WE DO NOT KNOW WHAT THE SERVICING BURDEN IS ON THE APPROXIMATELY 3 BILLION IN PRIVATE EXTERNAL INDEBTEDNESS. IT IS POSSIBLE THAT THIS IS SHORT-TERM MONEY AND THAT PRINCIPAL AND INTEREST PAYMENTS COULD CAUSE A SIGNIFICANT DRAIN OF SPAIN'S FOREIGN EXCHANGE RESERVES IN THE SHORT TERM.

8. TALKING POINTS

- A. ACCORDING TO FIGURES AVAILABLE TO THE US, SPAIN'S PUBLIC EXTERNAL DEBT OF 4 BILLION DOES NOT SEEM LARGE IN RELATION TO THE SIZE OF ITS ECONOMY (QOUT GNP OF 87 BILLION AND ITS CAPACITY TO GENERATE FOREIGN EXCHANGE EARNINGS. WE DO NOT KNOW WHAT EXTERNAL INDEBTEDNESS PRIVATE SPANISH BANKS AND COMPANIES MAY HAVE.
- B. WE WOULD BE HAPPY TO RECEIVE THROUGH OUR EMBASSY IN MADRID ANY ADDITIONAL INFORMATION WHICH SPAIN WOULD LIKE TO PROVIDE.
- C. WE UNDERSTAND THAT PRIVATE BANKS AND THE EXPORT-IMPORT BANK CONTINUE TO CONSIDER SPAIN A GOOD CREDIT RISK.
- D. SINCE EVEN THE SUGGESTION OF A NEED FOR DEBT RESCHEDULING WOULD BE UNSETTLING TO THE INTERNATIONAL FINANCIAL COMMUNITY'S CONFIDENCE IN SPAIN'S ECONOMIC OUTLOOK., WE BELIEVE THE GOS SHOULD BE EXTREMELY CAREFUL IN TALKING ABOUT A EXTERNAL DEBT PROBLEM.

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